

General Fund Fiscal Policies

Long-Term Financial Policy and Audit Subcommittee

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Background and Overview

Pension Stabilization

Capital Replacement

Extreme Events

Background – Fiscal Policies

- Finance began exploring the concept of Risk-Based Reserves in 2017
 - General Fund reserves surpassed Council Policy requirements
 - Address need to mitigate cost impacts to the General Fund
- Work paused after the 2017 Fires
- Renewed commitment from Finance to establish policies that provide stability to the General Fund
- Currently use operating reserves to fund unforeseen events



Overview – Risk-Based Reserves

- Colorado Springs use of Risk-Based Reserves Subject of a GFOA case study in 2013
- Analyze risks to General Fund operating budget
 - Pension Costs
 - Large Capital Replacement
 - Extreme Events (Natural Disasters and Emergency Infrastructure Needs)
- Assign funds for specific use
 - Develop policies for use and methodology for adding to funds
- Use a portion Year-End GF surplus to fund reserves
- Create replacement budget to fund reserves where appropriate

Benefits

- Allows the City to plan proactively for upcoming financial impacts
- Adds transparency for putting aside funds to pay for General Fund operational and one-time risks
- Distributes reserves fairly, avoiding a “reactionary” method to reserve spending
- Potential favorable benefit for the City’s overall credit rating
- Major potential risks specific to the City will be clearly outlined

Methodology

- Use \$40M Fiscal Stability funds to initiate reserves
- Establish a formula for allocating unspent appropriations to reserves based on greatest need
 - Identify risks specific to the City of Santa Rosa
 - Assesses the likelihood of each risk occurring and its impact
 - Use the knowledge of these specific risks, as well as their likelihood/impact, to determine reserve requirements specific to Santa Rosa rather than a “one size fits all” approach
- Further analysis needed to determine the appropriate annual funding amounts for reserves
 - Combination of using unspent/surplus annual budget and annual budget appropriations

Pension Stabilization Fund

- Develop formal Council policy for funding the trust
- If we have significant balance in trust, could use for unfunded accrued liability (UAL) payments on highest years of City's payoff schedule to lower peak of payments
- Use in the same manner as an Advance Discretionary Payment (ADP)
- Pair with Pension Obligation Bond (POB)
 - Initial savings directed to the trust
 - Use those savings as a stabilization fund to mitigate the risks in the initial period of issuance
- Regardless of status of POB, should establish the 115 Trust

Capital Replacement

- Provides a source of funds for large capital replacement not in normal Equipment Replacement Fund
 - Typically Fire Apparatus (depending on type ~\$1M each)
 - Body-worn Cameras (\$1.5M)
 - Tasers (\$750K)
- Fire Request to establish fund with \$4 million
- Establish annual replacement budget, similar to other vehicle replacement budgets
- Example: Need to purchase two Fire Engines
 - Lease at ~ 2.15% for 7 years
 - Establish ongoing replacement budget in the amount of lease payments

Extreme Events

- Source of funds to pay for unbudgeted expenditures resulting from extreme events
 - Emergency Operation Center (EOC) Activations
 - Fire, Public Safety Power Shutoff (PSPS), Natural Disasters
- Current practice is to draw from Operating Reserves, replace with FEMA reimbursements
- FEMA reimbursements can take months to years to occur
 - Still waiting for Non-Congregate Sheltering (NCS) reimbursement dating back to March 2020
 - Approximately \$3M to \$4M